Mayor and City Council

Packet of Additional Information

HealthCare Recommendations

July 23, 2004

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Issue 4 • July 23, 2004

HR Update

Important information impacting you

Information about the Health Benefit

Information about the recent recommendations from The Hay Group regarding employee and retiree health benefit changes has been distributed among employees, retirees and the City Council. Recommendations have been made, and additional alternatives are being considered. Below you will find some clarification of frequently asked questions.

GASB – What Is GASB, and why is it affecting the City's finances and what would happen if the City ignored its requirements?

The Governmental Accounting Standards Board (GASB) establishes financial accounting rules in the U.S. for all government entities. GASB has released a new accounting standard requiring that all governmental entities report current and future liabilities for retiree health benefits as if they were to be paid today. This requirement will be effective by 2007 and is similar to the standards currently required for private companies. The City's current liability is actuarially estimated at $196 million or $19.8 million annually for the next 30 years. The intent of this new accounting standard is to ensure that retiree benefits will be adequately funded for current employees and retirees.

If the proposed recommended changes to Council are approved, the City's 30-year liability would be reduced to $121 million, or $10.9 million per year. If the City does not comply with GASB and makes no effort to fund the liability, bond ratings would be affected and it would be difficult to issue debt in the future.

2005 Budget Structural Imbalance – Are the changes to the health benefit being recommended in order to balance the $17M structural imbalance?

The health benefit recommendations are estimated to have a $1 million dollar effect on the $17M dollar projected structural imbalance. However, the primary objectives are to align the health benefit with the market and manage the City's long-term liability.

Experience Rating – What is experience rating and why does the City need to consider this?

Health benefit rates always reflect the claim activity of the group participating in the health plan. The group's claims experience, along with administrative expenses, drive the premium costs from year to year. Currently, claim costs for all active employees and retirees are pooled and a "one rate fits all" calculation is made for each year's premiums. This represents a "blended" approach to rate-setting. It is recommended to continue to base rates on claim experience, but to determine rates for three categories of plan members (active employees, retirees over 65 and retirees under 65) based on their respective group's specific claim experience.

Currently approximately $.80 of each $1.00 collected is paid out in claims for employees and retirees over the age of 65. Approximately $2.00 is paid out for each $1.00 that is collected for retirees under the age of 65. The under age 65 retiree group would see the largest increase in FY 2005 based on the current proposal because of their significant claim cost. The FY 05 increase for current employees and retirees over 65 would be lessened by the experience rating method. Shifting to this model would also significantly reduce the GASB liability.

Eligibility for retirement benefit subsidy – Can you clarify the proposed change?

The current definition of eligibility for a retiree benefit subsidy is TMRS eligibility and at least 10 years of service with the City of Arlington. The proposed recommendation is to change the eligibility definition for employees with less than 5 years of service with the City. Under the new eligibility standards, employees must achieve TMRS eligibility and be 55 years of age with 15 years of service with the City. All employees with more than 5 years of service with the City of Arlington as of 1/1/2005 would be "grandfathered" and eligible to retire under the current eligibility definition.

The break at 5 years of service was chosen because it disrupted fewer than 50% of the workforce, and less tenured employees have more time to plan for future retirement expenses.

Health Plan Options – What will the options be in 2005?

The recommendation is that the City offer two health plan designs in 2005. The City would eliminate the PPO plan and retain the EPO/Choice Plan as it exists in 2004.

The second plan will be a High Deductible Plan (HDP) with a lower premium but will require a deductible of $1,000 per participant/$2,000 per family to be paid by the participant. Once the deductible is met, the plan will pay 80% of other eligible medical expenses. Eligible preventative care such as mammogram testing, prostrate screening, well-baby care, etc. will be covered up front at 80% without a need to meet the deductible.

Additionally, the City will continue to review other plan options for introduction over the next few years.

Pharmacy Plan Changes – Can you explain the Tiers and how the co-payment will change?

The proposed pharmacy benefit is a 4-tier, co-insurance plan rather than a co-pay system. Participants utilizing drugs in Tier 1 and Tier 2 will actually see an immediate savings in the amount paid per prescription based on the average cost of drugs in those tiers. For example, the average cost of a drug in Tier 1 is $30 and the participant would pay co-insurance of $3 or 10% versus the current $10 co-pay in Tier 1. Drugs in the upper tiers will likely cause an increase in participant spending. The proposed pharmacy plan would have a $2000 out-of-pocket maximum to ensure a cap on personal expenses each year.

Rates - Are the rates on the portal/website and discussed with City Council actual 2005 rates?

The rates used in the June 15th presentation to Council were examples only and are estimates based on current year rates. These estimates will change. Final rates cannot be determined until recommendations or alternatives are selected and approved. Final rates will be calculated based on approved recommendations as well as 2004 actual claim activity and 2005 projections of plan member migration to the new plan option or off the City's health plan.

Medicare – Will all City employees be eligible for Medicare at age 65?

Access to Medicare is based on current Social Security eligibility rules. If you have 40 quarters of service within the Social Security system you currently qualify for a full subsidy from the U.S Government that will pay the Part A premium. If you have less than 40 quarters, you may still qualify for a partial subsidy. Additionally, you may qualify through your spouse if he/she has the required 40 quarters. All individuals within the United States currently qualify and may purchase Part B.

Employees at the City who were hired prior to 1986 are currently not paying into Medicare. The recommendation is to subsidize Part A for those employees if they do not qualify for Medicare from another source. That will make Medicare the primary payer for claims and the City's plan secondary.

It is also recommended to offer an AARP retiree supplement for those over age 65. Since the City's plan is currently a secondary payer and not a supplement plan, this proposal may actually offer the retiree a better benefit, more coverage and ultimately less annual out-of-pocket expense.

Issue 3 • July 23, 2004

HR Update

Important information impacting City of Arlington retirees

Information about the Health Benefit

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Texas Association of Public Employee Retirement Systems
(TEXPERS)
Availability of Employer-Provided Retiree Healthcare
Benefits for City and County Public Employees in Texas
December 2003

Organized in 1989 by members of several Texas public employee retirement systems, TEXPERS is a voluntary nonprofit educational association. Its members are trustees, administrators, professional service providers and employee groups and associations engaged or interested in the management of public employee retirement systems. Today, 94 public employee retirement systems/groups are members of TEXPERS, including the City of Arlington. In addition there are 93 associate members of the Association who provide professional services to the retirement systems.

The Texas Association of Public Employee Retirement Systems is a statewide organization that enables trustees and administrators to exchange ideas and information with others facing the same challenges. By uniting Texas public retirement systems, TEXPERS works for their common interests, monitors state and federal legislative activities, and enhances professional pension fund management and administration by providing the highest quality education and advisory services to its retirement systems and affiliate members.

In December of 2003 a report was issued compiling the results of an extensive study done by TEXPERS on the availability of employer provided retiree healthcare benefits for City and County Public Employees in the State of Texas:

Their findings are summarized below:

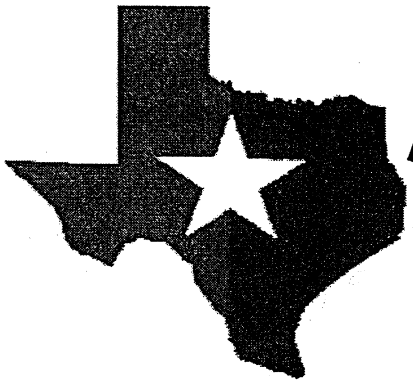
"As the general population has aged and the baby boom generation has begun to retire, special focus has centered on the continuance of healthcare coverage of retiring individuals, their spouses, and dependents."

Although most cities and counties in Texas have competitive retirement eligibility rules that permit their public employees to retire before age 65, very few provide **employer-paid** healthcare benefits to their retirees.

KEY FINDING: Based on the information collected in the TEXPERS survey, typical public employees in almost 95% of Texas cities and counties retire without **employer-paid** healthcare benefits for a gap period of 3 to 15 years before Medicare eligibility.

Only 5% of the survey respondents indicated coverage by the employer of healthcare costs for retirees. For all other survey respondents, retirees must individually cover the full costs of any retiree health insurance. Jurisdictions that do provide employer-subsidized retiree medical insurance typically do not extend health insurance coverage for spouse or other dependents. Dependent coverage is usually available under those plans, but only if the retiree pays the full premium for any dependent.

A copy of the full report is attached for your information.



TEXPERS

AVAILABILITY OF EMPLOYER-PROVIDED RETIREE HEALTHCARE BENEFITS FOR CITY AND COUNTY PUBLIC EMPLOYEES IN TEXAS

December, 2003

Texas Association of Public Employee Retirement Systems

TEXPERS® • One Riverway, Suite 1401 • Houston, Texas 77056

REPORT: Availability of Employer-Provided Retiree Healthcare Benefits for City and County Public Employees in Texas

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Executive Summary

As the general population has aged and the baby boom generation has begun to retire, special focus has centered on the continuance of healthcare coverage of retiring individuals, their spouses, and dependents. Since Medicare coverage typically does not commence until age 65, numerous public employees who are eligible to retire at younger ages face the issue of how to finance healthcare benefits during the gap period between their retirement and their eligibility for Medicare benefits. For public employees who are not covered by Medicare, the issue of healthcare availability extends beyond 65.

Indeed, although most cities and counties in Texas have competitive retirement eligibility rules that permit their public employees to retire before age 65, very few provide employer-paid retiree healthcare benefits to their retirees. The issue of availability of retiree healthcare is particularly acute among public safety officers (fire fighters and police), who tend to retire earlier and who typically are not covered under Medicare. Based on concerns brought about by this gap in coverage, a survey of healthcare availability was conducted in April, 2003.

Key Points

- About 1 out of every 3 employees covered under survey respondents' systems are public safety officers, who tend to retire earlier than civilian workers and as such, are less likely to be covered by Medicare's healthcare benefits.
- Almost 9 out of every 10 public employees under city systems are eligible to retire as early as age 60 with only 5 years of public service. Almost all city employees are eligible to retire at age 60 with 10 or more years of employment. About 1 out of every 2 public employees is eligible to retire as early as age 60 with 15 years of service.
- Among city employees hired before age 40, approximately 3 out of every 4 could retire earlier than age 60 upon completion of 20 years of public service. Among county employees hired before age 40, 5 out of every 9 could retire earlier than age 60.
- These typical retirement eligibility rules are generally more favorable than the eligibility requirements for Medicare, which provides benefits at age 65 for workers with 10 years of covered employment.
- Over half of the city system respondents reported an average retirement age less than age 60. Among all members under city systems, the average retirement age is 56.4, over 8 years lower than the minimum age for Medicare eligibility. For counties, the average retirement age was 62, 3 years lower than the Medicare eligibility age.
- Public safety officers tend to retire earlier than civilian workers. Among cities that responded to the survey, the average retirement age for public safety officers is about 50, while the average retirement age among civilian workers is about 60.
- Only 10 of the 186 survey respondents indicated employer-paid coverage for retiree healthcare.

Key Finding

Based on the information collected in the TEXPERS survey, typical public employees in almost 95% of Texas cities and counties retire without employer-paid healthcare benefits for a gap period of 3 to 15 years before Medicare eligibility

Survey Methodology

The Texas Association of Public Employee Retirement Systems (TEXPERS) surveyed counties and cities in Texas. The survey gathered information on availability of healthcare insurance for various categories of employees. Specific details requested under the survey are summarized in the appendix to this report. The information received in response to the survey was tabulated and analyzed by an independent actuarial consulting firm and is presented herein.

The information, analysis and results, and observations presented in this report represent solely an appraisal based on details requested and received in response to the TEXPERS survey. This report should not be relied upon as a certification, actuarial valuation, or offer of provision of health insurance.

Survey requests and responses are summarized in the following table. The final column in this table indicates the population of the responding jurisdictions as a percentage of the population of the state:

Minimum Age of Retirement

	Requests	Responses	Response Rate	% of Population
Cities	1,745	155	8.9%	21%
Counties	254	31	12.2%	18%
TOTAL	1,999	186	9.3%	

Among the survey respondents, about 67% of public employees are civilian workers. About 15% of the public employees are fire fighters; about 18% are police officers. As indicated in this report, the public safety officers—fire fighters and police—typically retire earlier than civilian workers and in general, are less likely to be covered under Medicare.

Minimum Age of Retirement

The issue of availability of healthcare benefits depends in part on the retirement eligibility rules established by the city or county employer. Almost all of the survey respondents provide employer-paid healthcare benefits for active employees. Accordingly, if employees were to remain in active Medicare-covered employment until eligibility for Medicare benefits, then there generally would be few problems concerning availability of employer-provided healthcare benefits (other than with respect to differences in the design of each employer's healthcare benefits program, for instance with respect to employee contributions, deductibles, co-insurance, and other details). In contrast, if employees are eligible to retire earlier than Medicare eligibility, and if the employer's healthcare program does not cover retirees at the employer's cost, then the individual retiree must pay the full cost of any healthcare insurance until Medicare eligibility (and beyond, if the individual has not served in Medicare-covered employment).

Among cities, about half of the survey respondents permit a member to retire at age 60 with completion of 5 years of service, or to retire at any age upon completion of 25 years of service. Rules used by survey respondents for retirement eligibility are summarized in the following table:

Overall Retirement Eligibility - Cities	% of Respondents
Age 60 with 5 years service; Any age with 25 years service	49.5%
Age 60 with 5 years service; Any age with 20 years service	39.1%
Age 60 with 5 years service; Age 50 with 25 years service; Any age with 28 years service	0.5%
Age 60 with 10 years service; Any age with 20 years service	5.0%
Age 60 with 10 years service; Any age with 25 years service	5.6%
Age 60 with 15 years service; Any age with 28 years service	0.3%

Under almost all city systems that responded, any member who has commenced service at an age younger than 50 will be eligible to retire as early as age 60, if the member remains in service until that age; and in almost 90% of the systems, members who commenced service at any age up to 55 will be eligible to retire at 60. Similarly, in almost all city systems, any member hired before age 35 who remains in service throughout the person's full career would be eligible to retire before age 60. Key individual retirement eligibility rules are summarized in the following table:

Retirement Eligibility Rule - Cities	% of Respondents
Age 60 with 5 years service	89.1%
Age 60 with 10 years service	10.6%
Any age with 20 years service	44.1%
Any age with 25 years service	55.1%

Although more city respondents' systems permit retirement at any age with 25 years of service, there are more members in systems that permit retirement at any age with only 20 years of service:

Retirement Eligibility Rule - Cities	% of Covered Members
Age 60 with 5 years service	87.0%
Age 60 with 10 years service	13.0%
Any age with 20 years service	77.5%
Any age with 25 years service	22.5%

Thus, for over three quarters of the members in city respondents' systems, retirement before age 60 would be possible for a member hired as late as age 40, rather than age 35. The full implication of this coverage distinction would depend upon the experience of hiring individuals between the ages of 35 and 40 under systems with that retirement eligibility rule, along with the experience of those individuals remaining in service until retirement eligibility and then taking advantage of pre-60 retirement eligibility.

The scope of these eligibility rules suggests that the majority of city members are eligible for retirement at age 60, and a significant number of those individuals are eligible for retirement at an age younger than age 60. Although the survey did not collect detailed demographic data (such as dates of employment or age-service tables) from each survey respondent, this general conclusion is borne out by the average retirement ages reported by the survey respondents.

By contrast, among counties that responded to the survey, retirement at any age was permitted for an employee who met service eligibility requirements among only 54.8% of the respondents' systems; and for almost 2 out of every 3 of those respondents, the service eligibility requirement for retirement at any age was 30 years. About 55% of the counties also used a flexible rule that bases retirement eligibility on the sum of a member's age and service. For example, under the rule of 75—the most common flexible retirement eligibility rule used—a member could retire at age 60 with 15 years of service (i.e., 60 plus 15 equals 75), or at age 59 with 16 years of service, et cetera. As contrasted with typical city systems that responded, the member under a typical county system that responded would generally need 5-10 years of additional service than their city counterparts to retire at any particular early retirement age. As noted in the following section, this difference in eligibility rules is reflected in a higher average retirement age among the county system members.

Retirement Eligibility Rule - Counties	% of Covered Members
Rule of 75: Age plus Service equals 75	48.4%
Rule of 80: Age plus Service equals 80	6.5%
Any age with 20 years service	19.4%
Any age with 30 years service	35.5%

Average Age of Retirement

Among the city survey respondents, a simple mean of the average retirement ages is 58.4 years old. Weighted by number of city members, the average age was lower, at 56.4 years. Reflecting different retirement eligibility rules, the average retirement age among the county respondents was approximately 62 years of age.

Among the individual city respondents, the highest average retirement age was 81.0 years, and the youngest average retirement age was 42.7 years. Among the city respondents, 91.2% reported an average retirement age younger than 65 and 58.2% reported an average retirement age younger than 60. For the county respondents, the youngest average retirement age reported was 52 and the highest was 70 years.

Comparison with Medicare Retirement Age and Medicare Coverage

Generally, a U.S. citizen is eligible for Medicare if—(a) the person or the person's spouse has worked at least 10 years in Medicare-covered employment, and (b) the person has attained age 65. An individual may qualify for earlier Medicare coverage if the individual is disabled or has an end-stage renal disease.

In contrast with Medicare eligibility at age 65 with 10 years of covered service, as indicated above, almost 100% of the city survey respondents offer retirement eligibility at 60 with 10 years of service or less, and almost half of th county respondents offer retirement at age 60 with 15 years of service (under the rule of 75). Indeed, over 58% of the city respondents reported an average retirement age under 60 years, and the average retirement age for the entire group of city members covered by the respondents was under 57 years. These survey results indicate a gap period of more than 8 years between an average city member's retirement and eligibility for Medicare coverage. For members of county systems, the average gap was less—only 3 years.

For most respondents, the average retirement ages tend to be affected heavily by the retirement patterns for public safety officers: fire fighters and police. Although not all respondents provided detailed retirement data segregated by various groups, among those that did, the average retirement age for public safety officers in the city systems was about 50 years, significantly below the overall city retirement age of 56.4. Accordingly, the estimated average retirement age of city employees who are not public safety officers would be expected to be comparably higher than the overall average age of 56.4—approximately 59.6 years. Essentially, this classification distinction emphasizes that the gap from retirement to Medicare eligibility is greater—on average, about 15 years—for city system's public safety officers, but on average less than the overall average for other city employees. For county respondents, the same pattern was reported, but to less extreme: the average retirement age for public safety officers in the reporting counties was about 60, versus the overall average retirement age in those systems of 62.

The survey did not collect information relating to the disability provisions of respondents' systems. Members who are eligible for pre-65 Medicare coverage on the basis of disability or end-stage renal disease would be expected to be a small minority of the total group covered by the survey, but should be taken into account for any policy decisions or system changes.

A State may provide Social Security and Medicare coverage for a group of public employees under written voluntary agreement with the Social Security Administration. Governmental employees hired after March 31, 1986, are mandatorily covered under Medicare unless specifically excluded under the Social Security Act (for example, temporary emergency workers or certain election workers).

Among survey respondents that are members of TEXPERS, only 1 out of every 3 of the jurisdictions cover public safety officers under Social Security. Among survey respondents that are members of TEXPERS, 2 out of every 3 of the jurisdictions cover their civilian employees under Social Security. These results indicate that for many city and county workers, the issue of availability of employer-provided healthcare insurance extends beyond Medicare eligibility, throughout all of the individual's retirement.

Healthcare Benefits Offered to Active Public Employees

Among the survey respondents, 137 of 155 cities (88.4%) and 30 of 31 counties (96.8%) offer employer-subsidized health insurance benefits for their employees and their dependents. Many also provide dental coverage and prescription drug coverage. For active members, employers generally pay 100% of the premiums for the health coverage for the employees. Under some systems, the employee is required to pay a portion, such as 50%, of the premium for healthcare coverage for dependents.

The typical coverage provided under the healthcare plan for active workers has a $250 individual deductible and a $750 family deductible for medical and surgical expenses, with no deductible for inpatient hospital expenses. The typical insurance program provides 80% of eligible charges beyond any deductible within a healthcare network or outside the area, or 60% of eligible charges incurred outside the network within the area. The individual must pay a flat dollar co-payment of $20 per visit for a physician's office visit and $75 pe visit for a visit to a hospital emergency room. Mental healthcare is generally limited to 15-30 visits ea calendar year. Certain medical procedures, such as invitro fertilization, are typically not covered. Maximum lifetime benefits for each member are generally $2 million.

Although costs may vary widely based on an individual's age, gender and health characteristics, number of dependents, geographic region, design of the healthcare program, and other factors, typical annual costs for the average healthcare program might currently range from $1,000 for individual coverage at the youngest average retirement ages to over $5,000 for an individual and spouse at the oldest retirement ages. During the gap period from average retirement age to Medicare eligibility, total costs for healthcare for an individual and spouse could exceed $30,000. For the group of survey respondents, the estimated annual cost of the gap is about $70 million.

Healthcare Benefits Offered to Public Employees Who Retire

Only 10 survey respondents (about 5% of the respondents) indicated coverage by the employer of healthcare insurance costs for retirees. For all other survey respondents, retirees must individually cover the full costs of any retiree health insurance.

Jurisdictions that do provide employer-subsidized retiree medical insurance typically do not extend health insurance coverage for spouses or other dependents. Dependent coverage is usually available under those health plans, but only if the retiree pays the full premium for any dependent.

Under federal law enacted as part of the Consolidated Omnibus Budget Reconciliation Act of 1985 (COBRA), employers must offer continuation healthcare coverage upon the occurrence of certain qualifying events that would otherwise result in loss of healthcare coverage, including retirement or other termination of employment. Although state and local governments are technically exempt from compliance with COBRA itself, nearly identical continuation coverage requirements apply under the Public Health Safety Act. The continuation coverage requirements do not apply to an employer that normally employs fewer than 20 employees. Qualifying employees must be offered health insurance coverage that is identical to similarly situated active employees; and the coverage must be available for 18-29 months following the qualifying event. Individuals who elect the continuation coverage can be required to pay a premium of as much as 102% of the full premium (employer plus employee) for a similarly situated active employee (or, for certain disability-related extensions, 150% of the otherwise applicable premium).

Many of the survey respondents that do not provide employer-subsidized retiree health insurance indicated that a retiree could maintain healthcare continuation coverage under the employer's healthcare plan at the retiree's expense. Insufficient information was provided to gauge the possibility of insufficient availability of continuation healthcare coverage among jurisdictions that would qualify for the federal law small-employer exemption.

For the vast majority of Texas counties and cities, based on the information provided in the survey responses, the employer does not finance healthcare insurance after retirement. Although many continue to make the health insurance program itself available to retirees, the retiree must pay the full premium cost, both for the individual and for any dependents. Even for some of those individual-financed cases, the availability of healthcare coverage through the employer does not extend beyond 18 months following retirement.

Based on the average retirement age of 56.4 reported by survey respondents, these results indicate that the average city or county employee would be individually responsible for financing the cost of healthcare for the period of over 8 years between retirement and Medicare eligibility. Furthermore, for many of those retirees, healthcare benefits even on the individually funded basis may not be available through the employer's group health plan during more than 7 of those pre-Medicare years, but instead would need to be obtained through the individual health insurance market or through post-retirement re-employment with an employer that provides health insurance coverage.

APPENDIX

Details of TEXPERS Survey

The TEXPERS survey requested cities and counties to provide the following information:

1. What is the minimum age of retirement for each group of employees (i.e., civilian employees, fire fighters and police officers) within your government organization?
2. What is the average age of retirement for each group of employees (i.e., civilian employees, fire fighters and police officers) within your government organization?
3. How does this age compare with Medicare's age for retirement?
4. What benefits, if any, are offered to your government employees?
5. What is the percentage breakdown of employees classified as follows: civilian employees, fire fighters and police officers.
6. Please attach a copy of your organization's abstract or summary of health benefits for current and retired employees.

Options to "Phase-In" Recommendations

Options have been reviewed to effectively phase in the recommended changes over the next three years. Three components of the original recommendations are applicable if a phased in approach is taken.

- Rate structure (Rate structure refers to experience rating and/or blending the employees' and retirees' claims cost to determine premium rates.

- Retiree subsidy.

- Retiree dependent subsidy.

Attached is a summary of the "Phase-In" options and a comparison of the various employee and retiree contribution rates as affected by each year's progressive change.

Option 1 establishes "experience rated" premiums right away and allows changes in retiree service tiers and subsidy levels to change slowly. Option 2 adjusts the retiree subsidy levels in year 2 and delays "experience rated" premiums until 2007. Both options share a gradual reduction in dependent subsidy.

Retiree and Retiree Dependent
Phase In Options

OPTION	FISCAL YEAR	RATE STRUCTURE	RETIREE SUBSIDY	DEPENDENT SUBSIDY	GASB IMPACT		ANNUAL BUDGET SAVINGS		
					Total	Annual	FY 05	FY 06	FY 07
Number One	FY 2005	Experience	30 yrs 100% 25 yrs 90% 20 yrs 80% 15 yrs 70% 10 yrs 60%	50%	$57M	$7.7M	$24K	$40K	$296K
	FY 2006			25%					
	FY 2007		30 yrs 85% 20-29 yrs 70% 10-19 yrs 50%	0%					
Number Two	FY 2005	Blended	30 yrs 100% 25 yrs 90% 20 yrs 80% 15 yrs 70% 10 yrs 60%	50%	$57M	$7.7M	$25K	$25K	$310K
	FY 2006		30 yrs 85% 20-29 yrs 70% 10-19 yrs 50%	25%					
	FY 2007	Experience		0%					

Employee/Retiree Contribution Comparison
Option 1 and Option 2
Estimates based on current year rates

					Option 1				Option 2		
Census	**Active Employee**	**Current**	**Proposed**		**2005**	**2006**	**2006**		**2005**	**2006**	**2007**
714	Employee Only	79.15	34.48		34.48	34.48	34.48		38.52	38.52	34.48
400	Employee + Spouse	170.04	255.14		255.14	255.14	255.14		205.02	205.02	255.14
245	Employee + Child	170.04	201.70		201.70	201.70	201.70		205.02	205.02	201.70
567	Employee + Family	239.20	396.50		396.50	396.50	396.50		324.48	324.48	396.50
	30 yr RE under 65										
11	Retiree Only	0.00	103.43		0.00	0.00	103.43		0.00	57.78	103.43
21	Retiree + Spouse	127.17	986.07		441.32	661.98	986.07		166.50	375.70	986.07
	Retiree + Child	127.17	772.31		334.44	501.66	772.31		166.50	375.70	772.31
5	Retiree + Family	219.59	1551.51		724.05	1086.08	1551.51		285.96	606.75	1551.51
	25 yr RE under 65										
35	Retiree Only	38.52	206.87		68.96	68.96	206.87		38.52	115.57	206.87
33	Retiree + Spouse	165.69	1089.51		510.28	730.94	1089.51		205.02	433.49	1089.51
0	Retiree + Child	165.69	875.75		403.40	570.62	875.75		205.02	433.49	875.75
12	Retiree + Family	258.11	1654.95		793.01	1155.04	1654.95		324.48	664.47	1654.95
	20 yr RE under 65										
52	Retiree Only	77.05	206.87		137.91	137.91	206.87		77.05	115.57	206.87
35	Retiree + Spouse	204.22	1089.51		579.23	799.89	1089.51		243.55	433.49	1089.51
	Retiree + Child	204.22	875.75		472.35	639.57	875.75		243.55	433.49	875.75
23	Retiree + Family	296.64	1654.95		862.02	1223.99	1654.95		363.01	664.47	1654.95
	15 yr RE under 65										
18	Retiree Only	115.57	344.78		206.87	206.87	344.78		115.57	192.62	344.78
12	Retiree + Spouse	242.74	1227.42		648.19	868.85	1227.42		282.07	510.54	1227.42
	Retiree + Child	242.74	1013.66		541.31	708.53	1013.66		282.07	510.54	1013.66
4	Retiree + Family	335.16	1792.86		930.93	1292.95	1792.86		401.53	741.59	1792.86
	10 yr RE under 65										
4	Retiree Only	154.09	344.78		275.82	275.82	344.78		154.09	192.62	344.78
5	Retiree + Spouse	281.26	1227.42		717.14	717.14	1227.42		320.59	510.54	1227.42
	Retiree + Child	281.26	1013.66		610.26	610.26	1013.66		320.59	510.54	1013.66
0	Retiree + Family	373.68	1792.86		999.87	999.87	1792.86		440.05	741.59	1792.86

These rates are estimates only and based on current rates. The addition of an alternative high deductible plan design will offer a less expensive option for both employees and retiree. Specific rates will be actuarially determined based on estimated migration and additional evaluation of 2004 claim activity.

Employee/Retiree Contribution Comparison
Option 1 and Option 2
Estimates based on current year rates

					Option 1				Option 2		
Census	**30 yr RE over 65**	**Current**	**Proposed**		**2005**	**2006**	**2007**		**2005**	**2006**	**2007**
7	Retiree Only	0.00	51.72		0.00	0.00	51.72		0.00	57.78	51.72
10	Retiree + Spouse	127.17	493.04		220.66	330.99	493.04		166.50	375.70	493.04
	Retiree + Child	127.17	386.16		165.72	250.83	386.16		166.50	375.70	386.16
0	Retiree + Family	219.59	775.76		362.02	543.03	775.76		285.96	606.75	775.76
	25 yr RE over 65										
10	Retiree Only	38.52	103.43		34.48	34.48	103.43		38.52	115.57	103.43
19	Retiree + Spouse	165.69	544.75		255.14	365.47	544.75		205.02	433.49	544.75
	Retiree + Child	165.69	437.87		200.20	285.31	437.87		205.02	433.49	437.87
0	Retiree + Family	258.11	827.47		396.50	577.51	827.47		324.48	664.47	827.47
	20 yr RE over 65										
8	Retiree Only	77.05	103.43		68.97	68.97	103.43		77.05	115.57	103.43
12	Retiree + Spouse	204.22	544.75		289.63	399.96	544.75		243.55	433.49	544.75
	Retiree + Child	204.22	437.87		234.69	319.80	437.87		243.55	433.49	437.87
0	Retiree + Family	296.64	827.47		430.99	612.00	827.47		363.01	664.47	827.47
	15 yr RE over 65										
12	Retiree Only	115.57	172.39		103.43	103.43	172.39		115.57	192.62	172.39
10	Retiree + Spouse	242.74	613.71		324.09	434.42	613.71		282.07	510.54	613.71
	Retiree + Child	242.74	506.83		269.15	354.26	506.83		282.07	510.54	506.83
0	Retiree + Family	335.16	896.43		465.45	646.46	896.43		401.53	741.59	896.43
	10 yr RE over 65										
12	Retiree Only	154.09	172.39		137.91	137.91	172.39		154.09	192.82	172.39
15	Retiree + Spouse	281.26	613.71		358.57	468.90	613.71		320.59	510.54	613.71
	Retiree + Child	281.26	506.83		303.63	388.74	506.83		320.59	510.54	506.83
1	Retiree + Family	373.68	896.43		499.93	681.14	896.43		440.05	741.59	896.43

These rates are estimates only and based on current rates. Final rates will be calculated based on approved recommendations as well as 2004 actual claim activity and 2005 projections of plan member migration to the new plan option.

Metroplex Comparisons

The City of Arlington's medical subsidy and plan design for active employees and retirees are compared to Metroplex cities. Each matrix includes comment on anticipated adjustments in subsidy or plan design where available.

Additionally, graphical illustrations are provided depicting the current 2004 competitive value of the City of Arlington health plan in terms of potential employee or retiree cost per year. A typical scenario of a hospital stay plus annual premiums is used as it relates to the Arlington health plan versus the most comparable plan from other cities.

Current Medical Plan Design Comparisons & Future Adjustment Considerations Between Metroplex Cities

	Carrier~	Annual Deductible	Maximum Out-of-Pocket Per Year	Maximum Lifetime Limit	Office Visit	Inpatient Surgery (Physician's Svcs)	Outpatient Surgery (Physician's Svcs)	Emergency Room (in area)	Prescription Drugs (30 day supply)	Number of Medical Plans Available	Future* Adjustment Considerations
Arlington	United Health Care (EPO)	None	$1,000/person $2,000/family	None	$25 co-pay	$200 co-pay, then 20%	$25 co-pay for doctor's office $150 co-pay then 20% for outpatient fac.	$100 co-pay, waived if admitted, then 20%	$10 generic, $25 brand preferred, $50 non-preferred Mail order for 90 day supply; $20 generic, $50 brand preferred, $100 non-preferred	2- EPO & PPO	Eliminate PPO plan Add High Deductible Health Plan (HDHP) Experience rate premiums by group Percentage Rx co-insurance w/4-tiers
Carrollton	Texas Municipal League (Intermed. PPO)	None	$3,000/person $5,000/family	$2,000,000	None for first $300, then 30%	30%	30%	10%	30% co-insurance Mail order for 90 day supply; $20 generic, $65 brand	3 - Basic, Intermed. & High PPN	No changes
Dallas	Humana (PPO Standard)	$300/person $900/family	$2,800/person $5,400/family	$2,000,000	20% after deductible	20% after deductible	20% after deductible	$50 co-pay	10% - $5 minimum generic, 20% - $10 min. preferred, 30% - $25 min. non-preferred	3 - PPO Standard & Optional, HMO	Provide third plan w/$3,000 deductible Co-insurance from 80/20 to 70/30 Increase max out-of-pocket
Fort Worth	United Health Care (Performance PPO)	$500/person $1,000/family	$2,500/person $5,000/family	None	$10 co-pay	10%	10%	$100 co-pay	$8 generic, $25 brand, $45 non-formulary Mail order for 90 day supply; $20 generic, $62.50 brand, $112.50 non-formulary	3 - Classic, Performance & Premier PPO	Consultant recommends experience rate premiums by group, possibly offer HMO, & continue higher deductible ($1,000) PPO Plan
Garland	Cigna (HMO)	None	$3,000/person $6,000/family	None	$25 co-pay	$1,000 co-pay	Plan pays 100%	$100 co-pay, waived if admitted	$10 generic, $30 brand w/o avail. generic, $10 brand w/avail. generic plus difference between brand & generic	3 - Basic & Premium PPO, HMO	No changes

Current Medical Plan Design Comparisons & Future Adjustment Considerations Between Metroplex Cities

	Carrier~	Annual Deductible	Maximum Out-of-Pocket Per Year	Maximum Lifetime Limit	Office Visit	Inpatient Surgery (Physician's Svcs)	Outpatient Surgery (Physician's Svcs)	Emergency Room (in area)	Prescription Drugs (30 day supply)	Number of Medical Plans Available	Future* Adjustment Considerations
Grand Prairie	United Health Care (Silver PPO)	None	None	$1,000,000	$25 co-pay	$200 co-pay	$100 co-pay	$100 co-pay, waived if admitted	$10 generic, $20 brand w/o avail. generic, $10 brand w/avail. generic plus difference between brand & generic	3 - Silver & Bronze PPO, Gold HMO	No changes
Irving	Aetna (HMO)	None	$2,000/person $4,000/family	None	$10 co-pay	$250 co-pay	$100 co-pay	$50 co-pay, waived if admitted	$10 generic, $20 brand Mail order for 90 day supply; $20 generic, $40 brand	2 - POS & HMO	Unknown
Mesquite	Cigna (Basic PPO)	None	$2,000/person $4,000/family	$1,500,000	$20 co-pay	$500 co-pay	$200 co-pay	$100 co-pay	$10 generic, $20 brand, $40 non-formulary	3 - Basic & Premium PPO, HMO	Provide high deductible health plan $500 PPO deductible Add health savings acct. Percentage Rx co-insurance
Plano	United Health Care (PPO Option 2)	$500/person $1,000/family	$2,500/person $5,000/family	$1,000,000	$25 co-pay	20% after deductible	20% after deductible	$50 co-pay	$8 generic, $35 brand preferred, $50 brand non-preferred Mail order for 90 day supply; $16 generic, $70 brand preferred, $100 brand non-preferred	2- PPO Options 1 & 2	No changes
Richardson	CORPlan (PPO)	$350^	$5,000/person $10,000/family	$1,000,000	$30 co-pay	10%	$100/day	$100/day	$100 deductible $15 generic, $30 brand w/o avail. generic, $50 brand w/avail. generic Mail order supply for 90 days; $30 generic, $60 brand w/o avail. generic, $100 brand w/avail. generic	1 - PPO	Change copays Limit office visits 3 per year before deductible applies

* = Anticipated changes only

~ = Cities offer multiple plans. Plans described are most prevalent and/or comparable to COA

^ = Deductible applies beginning with 5th office visit of calendar year

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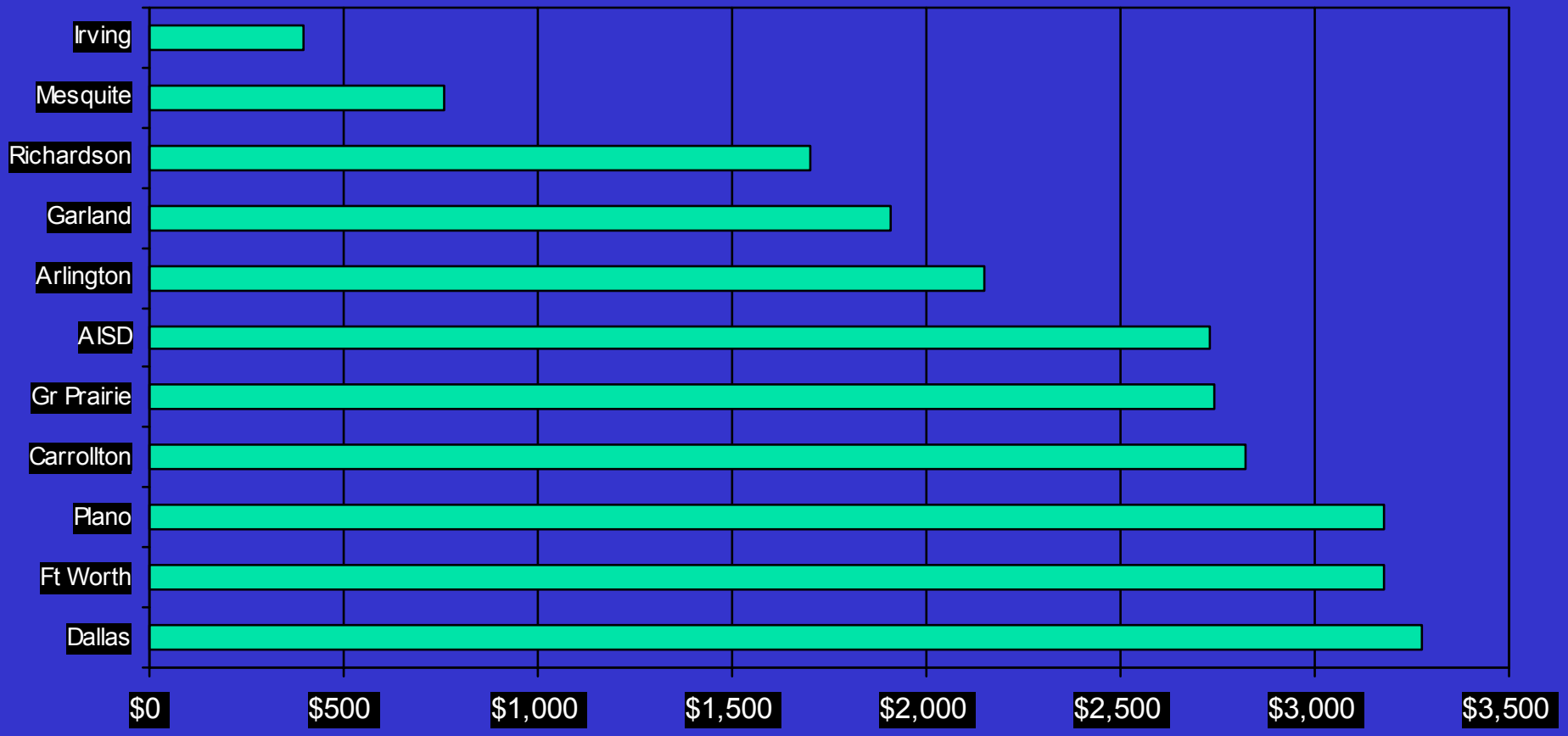
Comparative Market Value

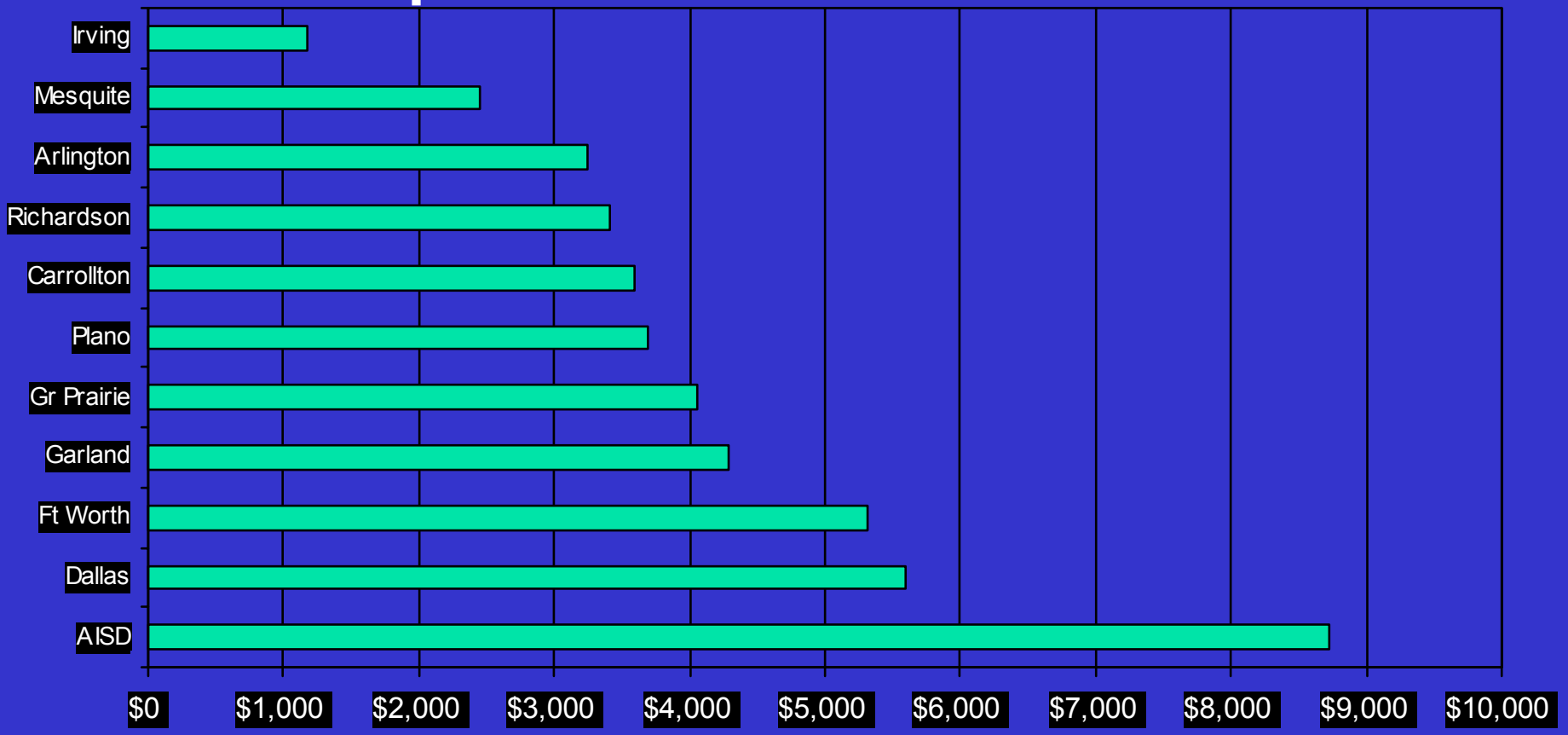
- **Scenario – Hospital Stay = $10,000 +1 year worth of premiums – EE Only**



Information and comparison based on current 2004 premium rates

Comparative Market Value

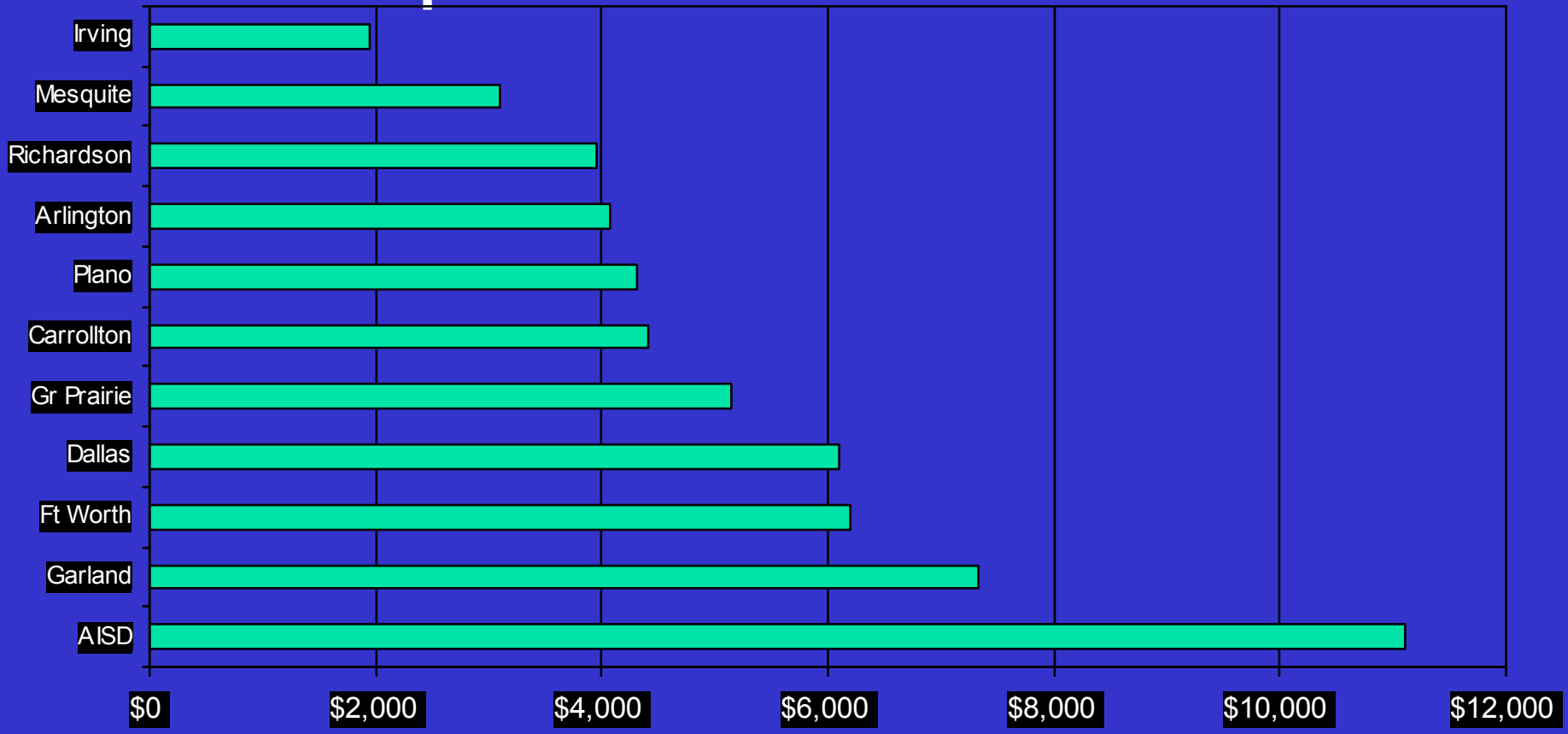
- **Scenario – Hospital Stay = $10,000 +1 year worth of premiums – EE + 1**



Information and comparison based on current 2004 premium rates

Comparative Market Value

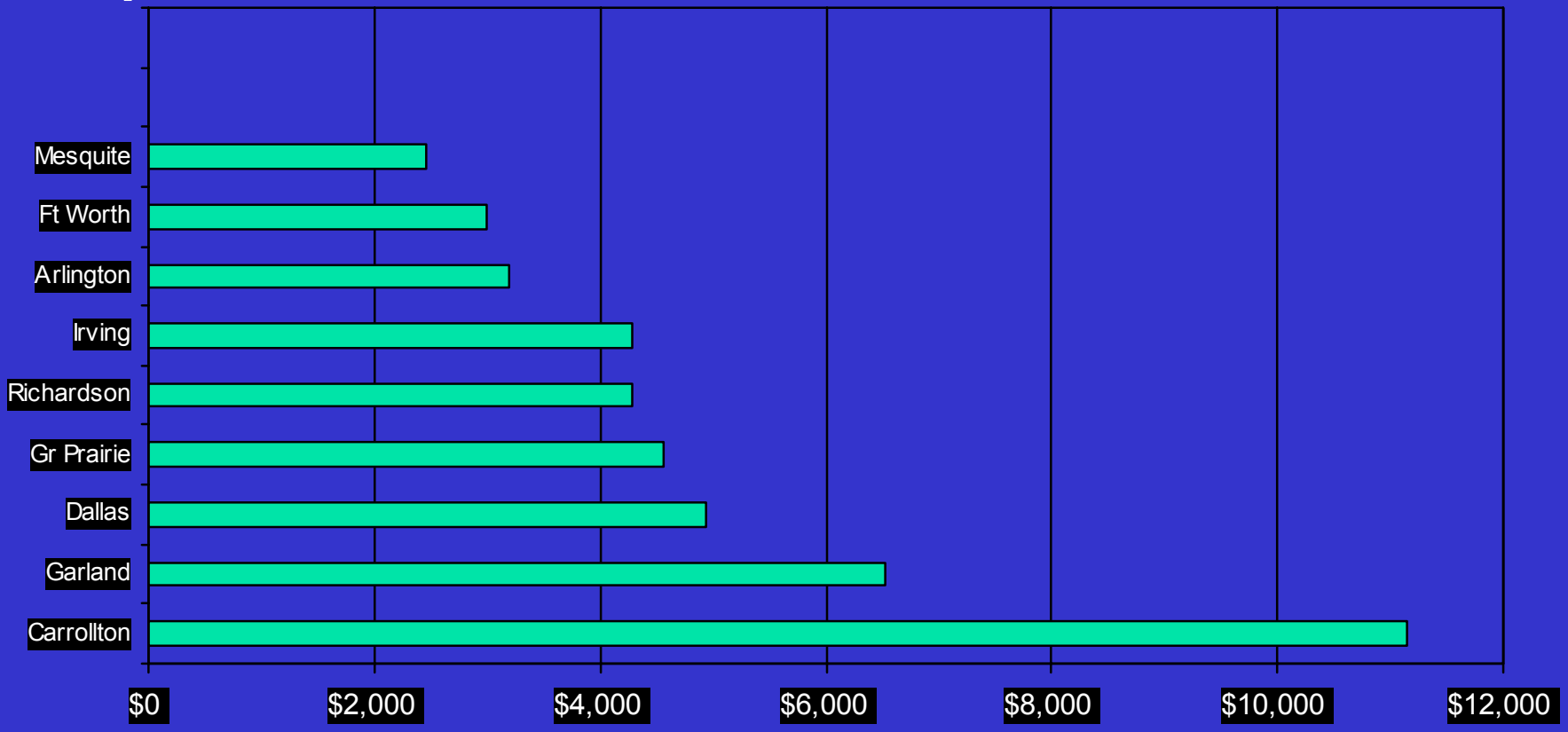
- **Scenario – Hospital Stay = $10,000 +1 year worth of premiums – EE + F**



Information and comparison based on current 2004 premium rates

Comparative Market Value

- **Scenario – Hospital Stay = $10,000 +1 year worth of premiums – Retiree + 1**



Information and comparison based on current 2004 premium rates

Retiree & Dependent Subsidy Comparisons & Future Adjustment Considerations Between Metroplex Cities

	Retiree Subsidy	Dependent Subsidy	Future* Adjustment Considerations	GASB Liability Preparations**
Arlington	10 - 14 yrs: 60% 15 - 19 yrs: 70% 20 - 24 yrs: 80% 25 - 29 yrs: 90% 30+ yrs: 100%	70%	Change subsidy to 50 - 85% for retirees & 0% for dependents Change retirement eligibility to age 55 & 15+ years of service with the City (grandfather those w/5+ yos) Experience rate premiums by group High deductible plan option Over 65 alternative	Actuary study conducted Identified current liabilities Providing various medical plan design, premium & subsidy options for Council's consideration
Carrollton	None	None	None	Very limited GASB liability due to $0 subsidy
Dallas	60%	30%	12% premium increase Share premium increase between employee/City Introduced 3 AARP options in 2004 w/700-800 participants	First actuary study conducted 2-3 yrs ago Steadily decreased subsidy for retiree/dep Subsidy goal for 2005 is 50% retiree only & 0% dependent Results of second actuary study will be known at end of July
Fort Worth	5 - 14 yrs: 33% 15 - 24 yrs: 67% 25+ yrs or hired prior to Oct '88: 100%	5 - 14 yrs: 50% 15 - 24 yrs: 40% 25+ yrs or hired prior to Oct '88: 30%	Provide Medicare Supplement Plan that would only fill in gaps where Medicare leaves off Consultant recommends experience rate premiums by group & possibly offer an HMO plan while maintaining their high deductible plan	Aon will be conducting actuary study this year & should be completed early 2005
Garland	$242 per month	None	No changes	Will proceed with independent audit of plan & decide strategy mid 2005 following audit findings
Grand Prairie	5 - 9 yrs: 10% 10 - 14 yrs: 30% 15 - 19 yrs: 50% 20 - 24 yrs: 60% 25 - 29 yrs: 80% 30+ yrs: 90%	10 - 90%	Provide $4,000 per year subsidy Restructure premiums	Will conduct formal actuary study to assess current liability
Irving	$168.75 (until age 65 only)	None	Looking at plan design & subsidies, but no recommendations to date	
Mesquite	4% per year of service after 10 yos	2.6% per year of service after 10 yos	10-15% premium increase Share premium increase between employee/City Flat dollar amount instead of percentage for City subsidy Implement a Medical Retirement Account (MRA) to which the City contributes $100 per year	Actuary study conducted 25-year actuarial estimate of cost is $202M Estimate savings of 6%, or $12.5M, by implementing future adjustment considerations & other possible changes

Retiree & Dependent Subsidy Comparisons & Future Adjustment Considerations Between Metroplex Cities

	Retiree Subsidy	Dependent Subsidy	Future* Adjustment Considerations	GASB Liability Preparations**
Plano	$11 per year of service	None	Change City's subsidy participation Change eligibility requirements	
Richardson	$350 per month	None	Unknown	

* = Anticipated changes only

** = Each City has indicated an interest in GASB impact and recognizes the pending change. Several have yet to initiate a strategy.

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Employee & Dependent Subsidy Comparisons & Future Adjustment Considerations Between Metroplex Cities

	Employee Subsidy	Dependent Subsidy	Future* Adjustment Considerations
Arlington	79%	79%	Change subsidy to 90% for employees & 50% for dependents Experience rate premiums by group Implement wellness program
Carrollton	96%	74 - 81%	10% employer subsidy increase Implement wellness program
Dallas	61 - 89%	27 - 81%	12% premium increase Share premium increase between employee/employer
Fort Worth	56 - 90%	42 - 72%	Consultant recommends maintaining 70% City - 30% employee cost share for Performance PPO Plan only
Garland	86 - 95%	43 - 69%	No planned changes
Grand Prairie	80 - 93%	65 - 82%	1.5% subsidy increase ($5,000/yr)** Exploring additional wellness options
Irving	95%	81 - 85%	Looking at plan design & subsidies, but no recommendations to date
Mesquite	89 - 97%	73 - 89%	10 - 15% premium increase Share premium increase between employee/employer
Plano	83 - 94%	71 - 90%	15% premium increase
Richardson	87%	39 - 51%	Unknown

* = Anticipated changes only
** = Subsidy is applied to EAP, LTD, wellness, life and medical insurances

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Current Employee and Retiree Communications

Documentation provided to both current employees and retirees has been reviewed for any reference to health benefits now and in the future. Sources include:

- Policy Manual
- Employee Orientation slides and new employee hire packet
- Retirement Fact Sheet
- Retiree and Employee Insurance Enrollment guides
- Retiree and Employee Insurance Enrollment forms

The only references to retiree health benefits and subsidies are contained within the Retirement Fact Sheet and annual enrollment materials. Attached is a summary of findings within the noted reference materials.

Current Employee and Retiree Communication

Source	Excerpts/Observations
Policy Manual	**Not a Contract "**This manual does not constitute a contract of employment or benefits. Nothing in this manual should be construed as a guarantee of continued benefits from, or employment by, the City of Arlington." **Section 307.00 Non Leave Benefits, 307.02 General Provisions** – "Eligibility for and the amount of any benefit described in the Chapter depend on the provisions of the official plan document and federal tax law. The City has the discretionary and final authority to construe and interpret all employee benefit plans, decide all questions of eligibility and determine the amount, manner and time of payment of any benefits, to the extent allowed by law and by contract with the plan administrator." **Bottom of each section** – "Nothing in this Manual is to be construed to create a contract between the City and its employees or create a contractual entitlement to any benefit. Any benefit provided in this Manual may be modified or withdrawn at any time without notice, except as provided by federal law or regulation."
Employee Orientation	During employee orientation, retirement benefits are discussed but applicable to the TMRS benefit only. Health benefits for retirees and/or subsidies are not mentioned.
Retirement Fact Sheet	A retirement fact sheet is presented upon request to employees considering retirement and during the retirement process. The current Retirement Fact Sheet states: **Q**: Can I continue my medical, dental, and/or vision benefits for myself and my dependents when I retire? If so, what is the cost? **A**: "At the present time you may continue medical benefits after retirement. The cost is based upon your years of service…" **Q**: If I elect to continue my coverage, will my rates stay the same throughout my lifetime? **A**: All rates and plans are subject to change.
Retiree Insurance Enrollment Guides and Enrollment Forms	Enrollment forms are always identified by year and contain current year rates. Enrollment guides were implemented in 2003 and again in 2004, one for active employees and one for retirees. All retirees and employees received copies of these enrollment guides in 2003 and 2004. At the bottom of Page 2 in each enrollment guide is the following statement: "The City of Arlington reserves the right to change or terminate benefits at any time. Neither the benefits, nor this enrollment guide should be interpreted as a guarantee of future benefits"

Research of Past Representations
Of Benefit Communication to Employees and Retirees

Representations of documents provided to both current employees and retirees prior to 2004 were retrieved from archives and reviewed for any reference to a contract, promise and changes in health care benefits then and in the future. Documents include the following:

- Policy Manuals and/or records of policy revisions
  - 1975
  - 1980 – 1988
  - 1989 – 1997
  - 1998 – 2003
- Presentation, agendas, slides, and content from group retirement planning sessions
  - 1980 - 1984
  - 1985 – 1999 – records were not available
  - 2000
  - 2001 – 2004 – group retirement planning presentations were suspended due to budget limitations

Attached is a summary of findings within the noted reference material and an indication of what is contained in the materials.

Research of Past Representations of Benefit Communication to Employees and Retirees

Source	Year	Excerpts or observations
Policy Manuals	1975	This policy manual makes no reference of retirement and/or retirement benefits. The only mention of insurance relates to employee hospitalization insurance, giving a summary of benefits, noting that the City paid $3.00 toward life insurance and hospitalization insurance. Life insurance was mandatory, hospitalization was not.
	1980 ? 1988	Authority – "The City Manager may change or amend these rules within the law to the extent he/she deems necessary in order to more effectively and efficiently promote the interest of the City and its employees." Insurance – provided group insurance coverage to regular City employees at no cost to the employee with opportunity to enroll dependents at a nominal cost. No mention of retiree health benefit. Retirement – Explained TMRS and SRIP benefit, calculations, vesting and eligibility. No mention of retiree health benefit.
	1989 ? 1997	Authority – "…the issuance of this manual does not constitute a contract between the City and its employees." Health Expense Coverage – "The City provides full-time employees the opportunity to participate" Retirement – Information on retirement programs is provided to employees in Benefit summary booklets. (*Speaking of TMRS retirement program and the 401(k) which have summary plan booklets provided upon hire with the city*.)
	1998 ? 2003	Authority – "Neither the offer not acceptance of employment nor the establishment and maintenance of operating policies and procedures by the City of Arlington create a contract of employment or a contract for benefits. Nothing in these rules should be construed as a guarantee of continued benefits from or employment by the City of Arlington." Health Expense Coverage –"The City provides full-time employees the opportunity to participate" Retirement – Information on retirement programs is provided to employees in Benefit summary booklets. (*Speaking of TMRS retirement program and the 401(k) which have summary plan booklets provided upon hire with the city*.)

Research of Past Representations of Benefit Communication to Employees and Retirees

Source	Year	Excerpts or observations
Retirement Planning Sessions- Group Presentations	1980	What about medical insurance? Medicare is referenced and converting current group insurance to one that will supplement Medicare. No subsidy provided for retiree and/or dependent.
	Sept 1981	1st year to announce that employees will be eligible for continuous coverage under our Medical Plan upon retirement under certain conditions. Session content refers to retirees as "employees". (See excerpt below attached.) Eligibility: 10 years of service and age 60 25 years of service and age 50 28 years of service with no age limit Employee Contributions: 30 years or more – none 25 BLT (but less than) 30 – 10% 20 BLT (but less than) 25 – 20% 15 BLT (but less than) 20 – 30% 10 BLT (but less than) 15 – 40% Employees will continue to contribute the **full cost** of dependent coverage.
	Dec 1981 - 1984	Same as above with the exception of a **14% discount** on dependent coverage. ($41.92 vs. $48.68)
	1985 – 1999	Records are not available.
	2000	The title of the session was Planning a Secure Future and did not speak directly to specific COA health retirement benefits, just planning for retirement in general.
	2001 – 2004	Group retirement planning presentations were suspended due to budget limitations.

Retirees and their Dependents

The City currently provides the opportunity for employees to continue their medical plan elections upon retirement when they have a minimum of 10 years of service with the City of Arlington and qualify for TMRS retirement benefits.

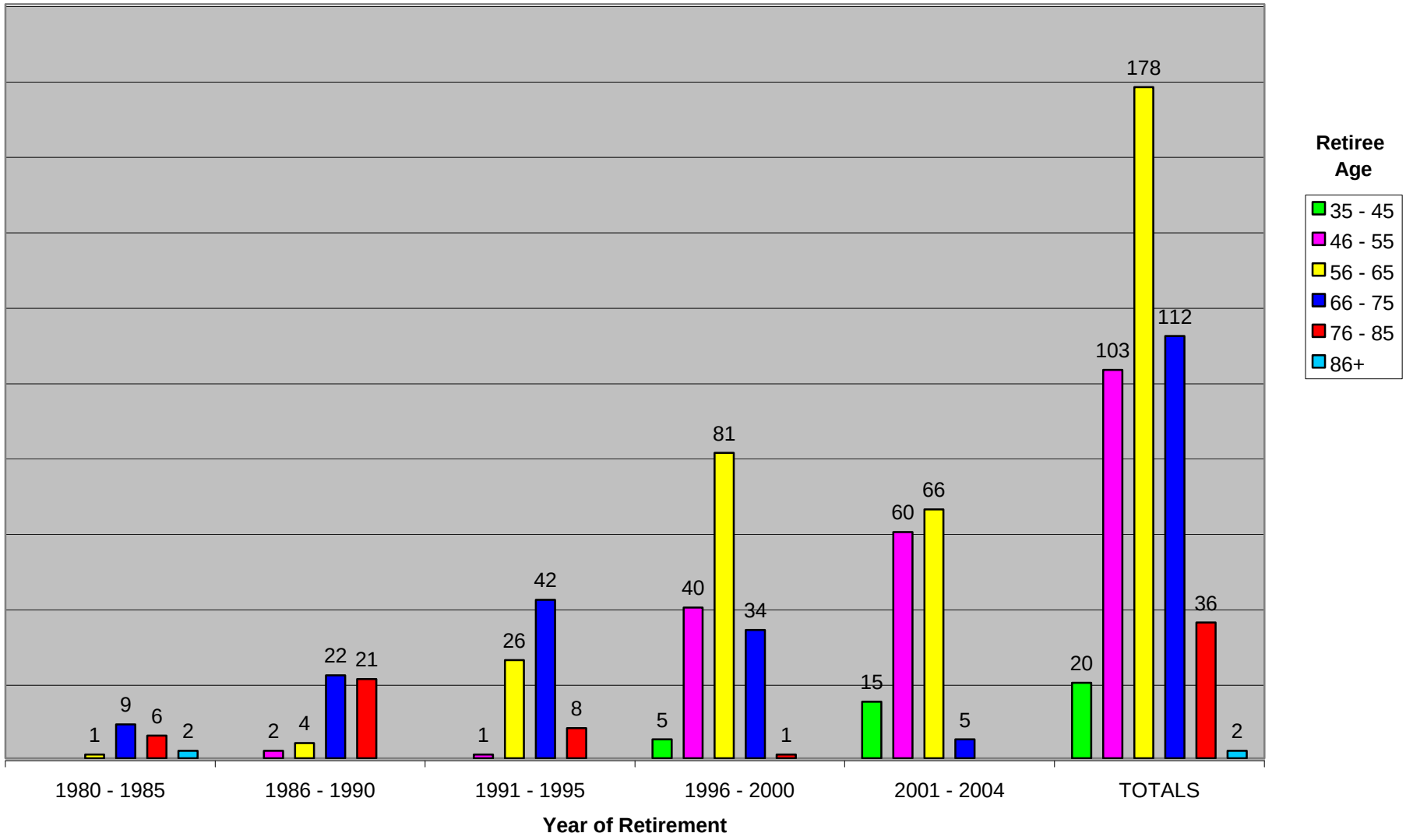
The average age of retirees participating in the city's medical plan is 64. Ages range from 40 to 86 years.

The current definition of an eligible dependent includes a legal spouse and dependent children under the age of 25. The average age of our retiree spouse is 58. Ages range from 36 to 85 years. The average age of our retiree child is 15. Ages range from 3 months to 24 years.

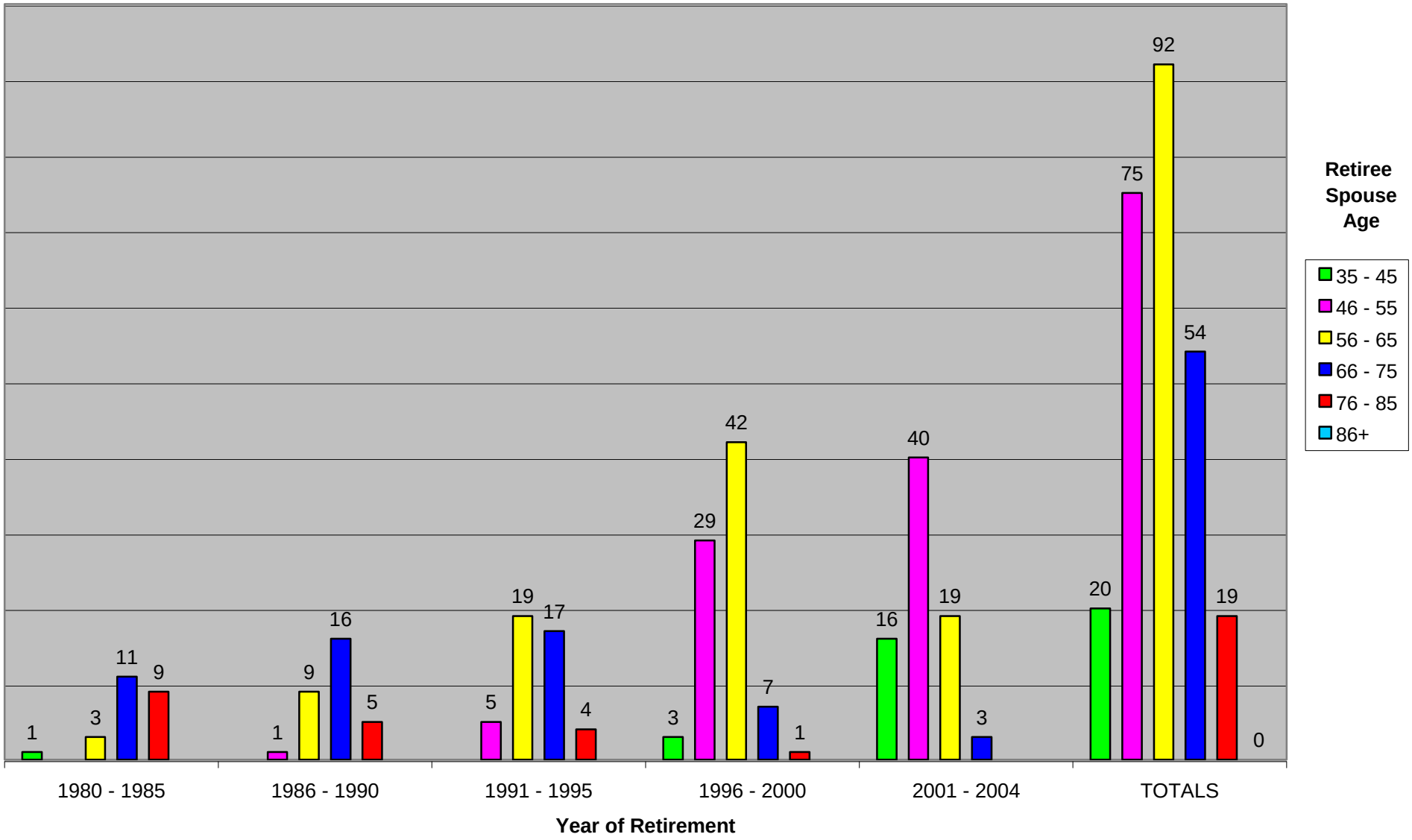
Based on current life expectancy data, some retirees, spouses and children may need to continue their medical coverage through the City for 25 years and beyond.

The following is an illustration of the number of retirees, spouses, and dependent children by age broken out based on the year in which they retired.

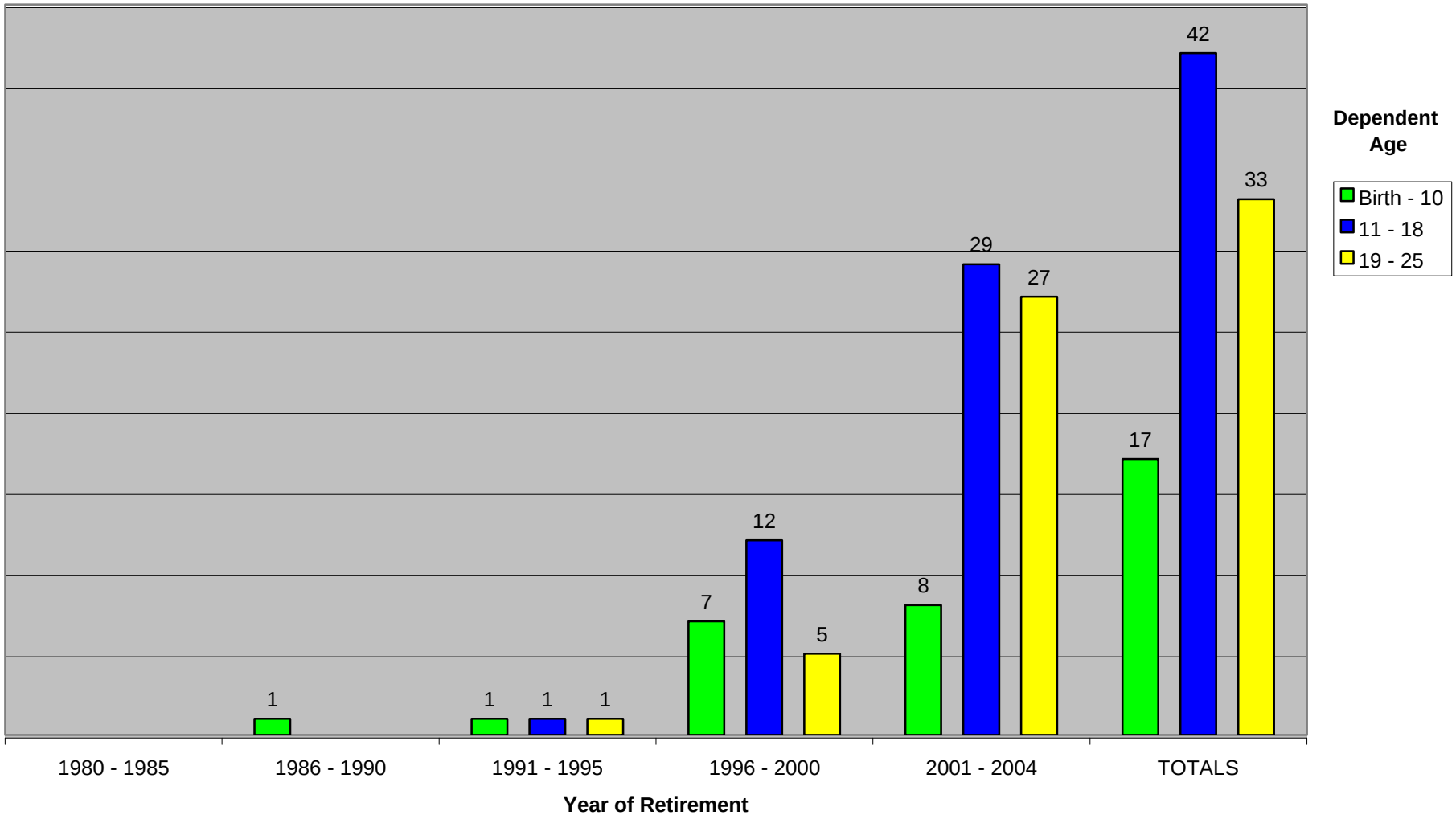
RETIREE


1
9
6
2
2
4
22
21
1
26
42
8
5
40
81
34
1
15
60
66
5
20
103
178
112
36
2
1980 - 1985
1986 - 1990
1991 - 1995
1996 - 2000
2001 - 2004
TOTALS
Year of Retirement
Retiree Age
35 - 45
46 - 55
56 - 65
66 - 75
76 - 85
86+

RETIREE SPOUSE



DEPENDENT CHILDREN



Visual Market Trend Illustrations

The City of Arlington's medical benefits for active employee and retirees are compared to their respective markets. Three graphical representations of trend are provided:

-Retiree medical benefits compared to private industry

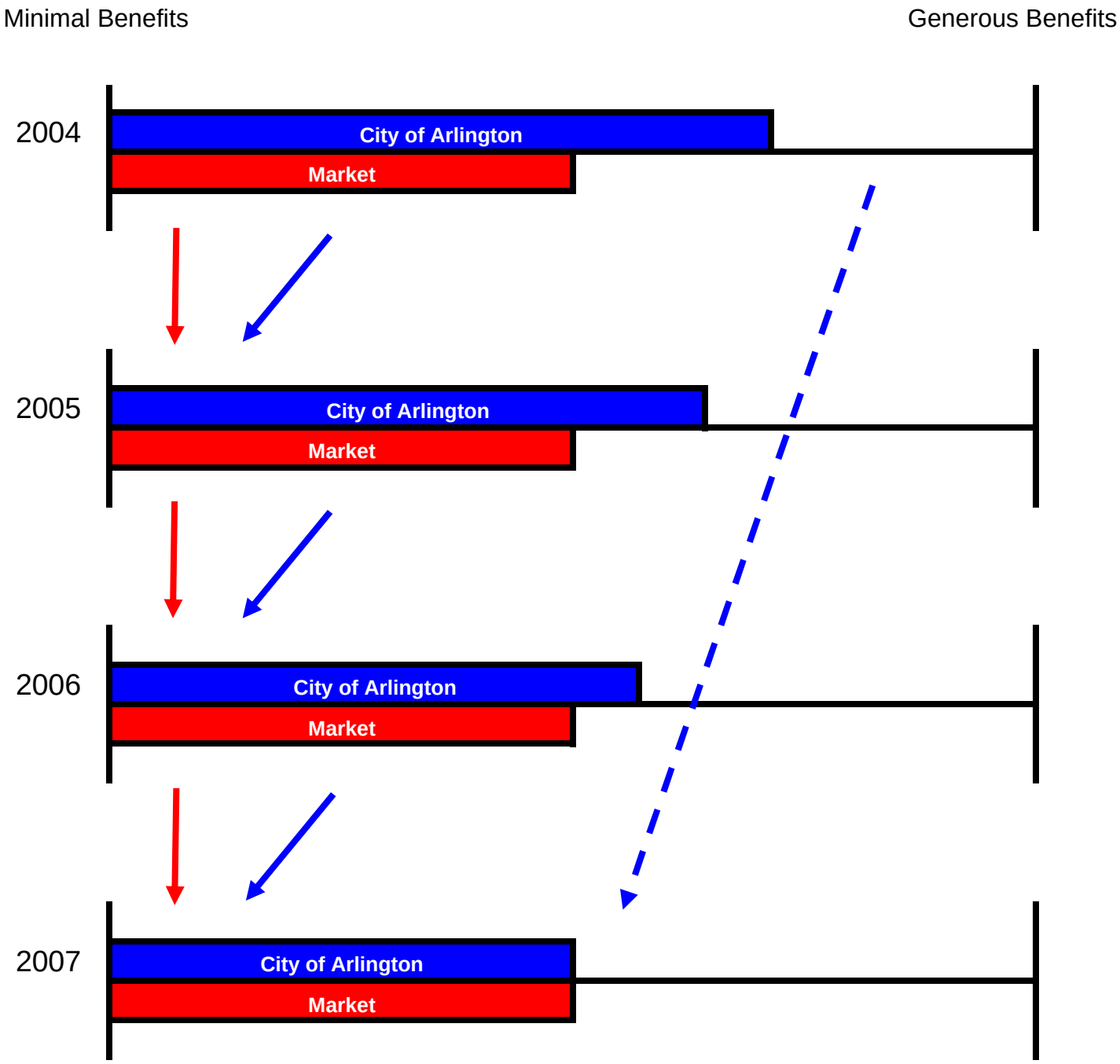
-Retiree medical benefits compared to Metroplex cities

-Active employee medical benefits compared to Metroplex cities

The illustrations show a relative comparison of the City of Arlington's plan to the market and the movement the City's health plan and the market are projected to make if the Hay recommendations were adopted.

Active Employee Medical Benefits Trend

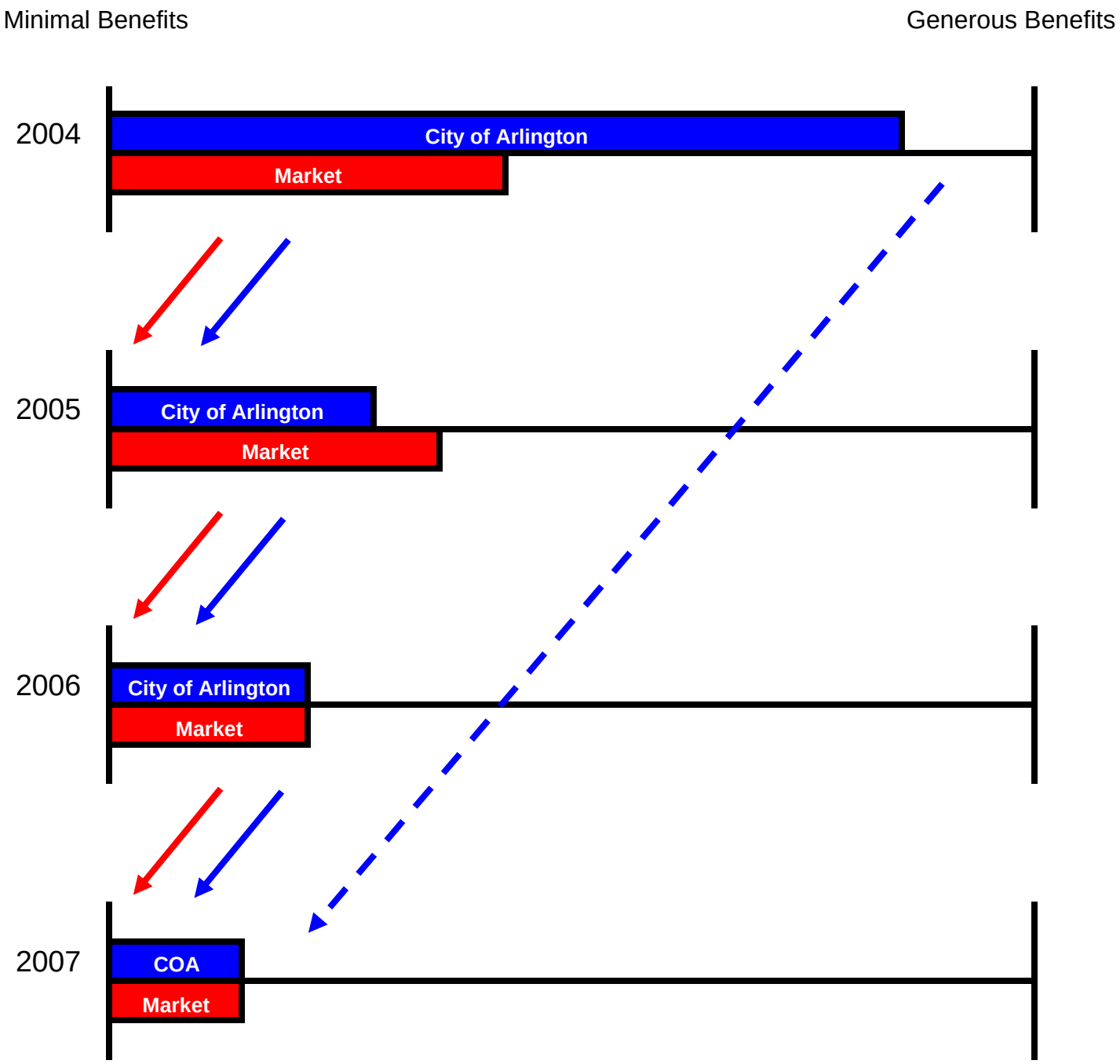
(City of Arlington compared to Metroplex Cities)



Note: Representation of market is estimated based on subsidy and flexibility/generosity of plan design.

Retiree Medical Benefits Trend

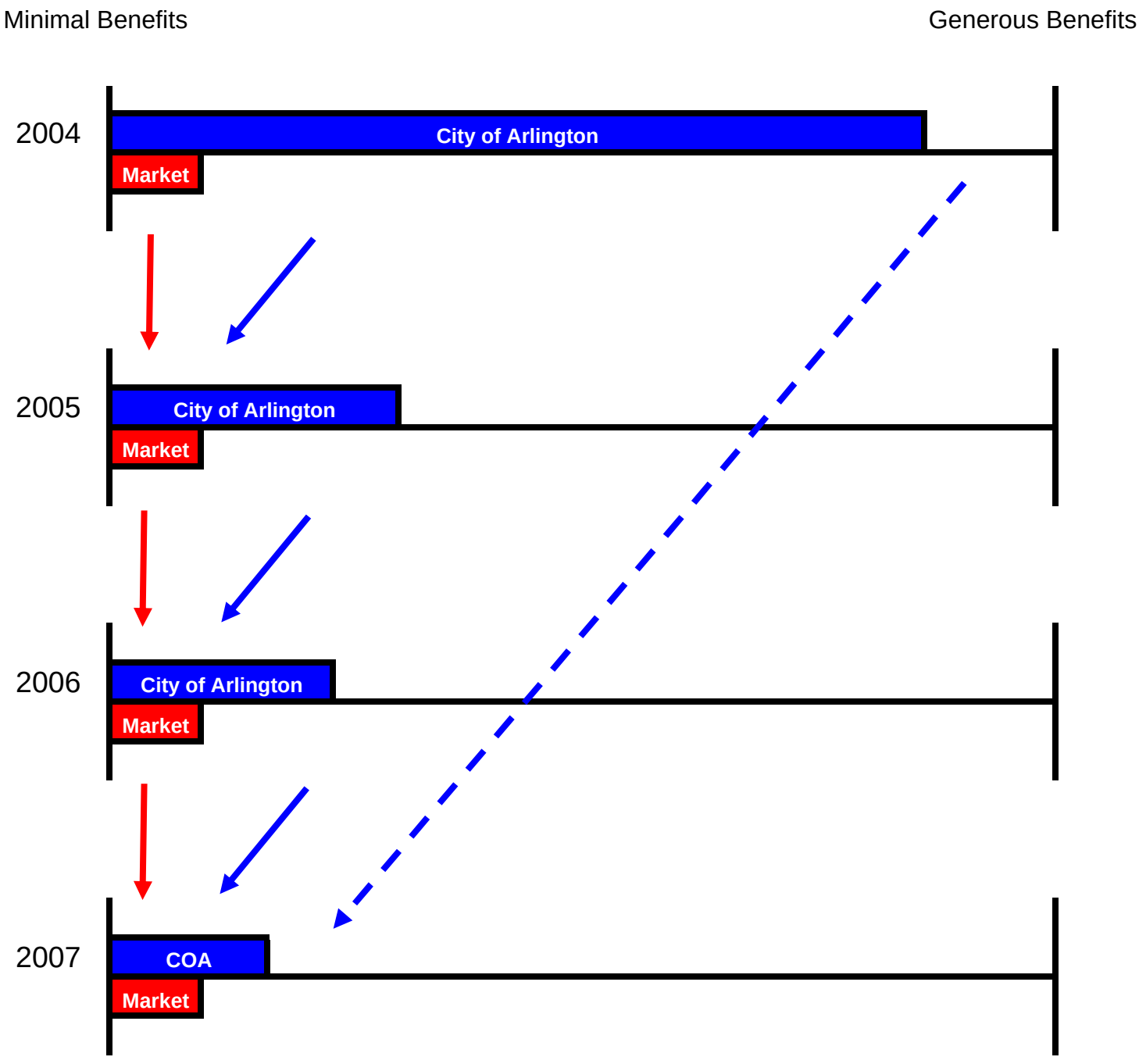
(City of Arlington compared to Metroplex Cities)



Note: Representation of market is estimated based on subsidy and flexibility/generosity of plan design.

Retiree Medical Benefits Trend

(City of Arlington compared to Private Industry)



Note: Representation of market is estimated by subsidy, plan design & access to employer's health plan.

Analysis of a potential “Safety Net” Feature

Council had expressed interest in the possibility of supplying a “safety net” for retirees experiencing a burden after the recommendations had been phased in.

Per research and opinion provided by the City Attorney’s Office, Article 3, Section 53 of the Texas Constitution prevents a “municipal authority” from granting any extra compensation, fee or allowance to a public officer, agent, servant or contractor after service has been rendered. Additionally, based on research and opinions rendered by the Attorney General of the State of Texas as late as 2000 and 2001, it is against the constitution to increase a municipality “match” to pay an additional sum toward the premium for retirees, in mass or individually. In effect, to “add back” subsidy to ease the burden of some would be prohibited.

For decreases in the “match” the Personnel Policies and Procedures Manual has explicit sections which deny that any contract is created for employee benefits. Therefore, the City’s “match” may be decreased for retiree or their dependents even though the match may not be increased because of the constitutional provision discussed above.

Funding the Other Postemployment Benefit (OPEB) Liability
Through Transfer of City Landfill

The OPEB liability that will result from the recognition of retiree health plan costs is funded by employer contributions to an OPEB plan. An alternative approach allows an employer to contribute to the plan by irrevocably transferring assets to a trust. These assets must comply with the following requirements.

- The assets must be dedicated to providing benefits to retirees and their beneficiaries in accordance with the terms of the plan.
- The assets must be legally protected from creditors of the employer or plan administrator.

Generally, real estate or other tangible assets can be contributed to the trust in order to satisfy the OPEB liability. Real estate assets must generate a cash flow stream or be sold to pay retiree health care plan expenses as they arise.

Specifically, the landfill is an asset that could be contributed to the trust.

However, it is the initial opinion of the City's independent auditors, KPMG, that this would be considered a transfer between related entities. As such, it would not be considered an economic event that would trigger recognition of the current market value of the landfill. Consequently, the landfill would be transferred to the trust at an amount equal to the landfill's actual cost less depreciation. This value was $7,596,000 as of 9/30/03.

A better option would be for the city to lease or sell the landfill and transfer the cash on a recurring or one-time basis to the OPEB plan.